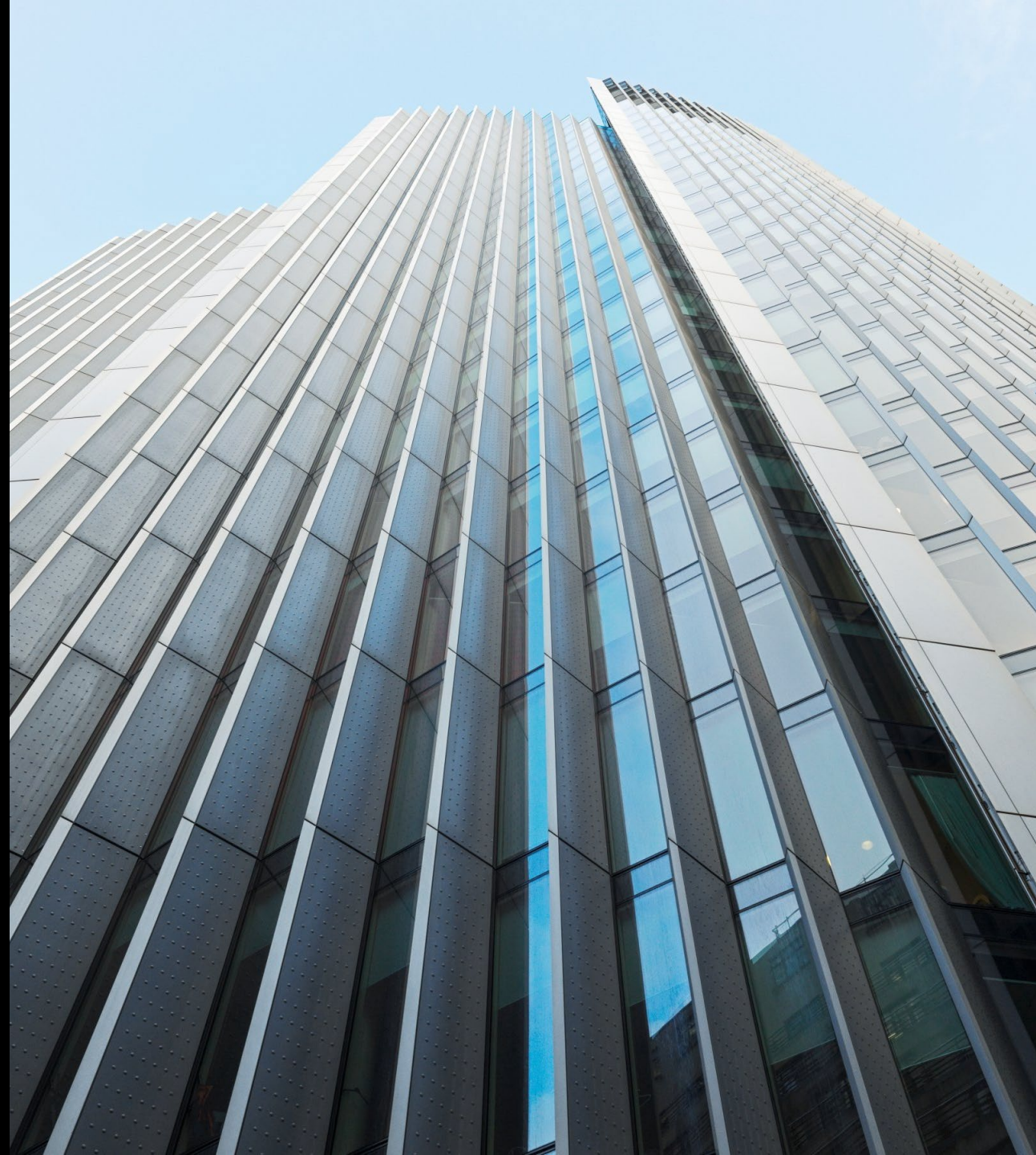


Clifford Chance

Implementing Basel 3 final (EU, UK and US): impact on undrawn credit facilities

June 2026



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Implementing Basel 3 final: impact on undrawn credit facilities

The EU, UK and US implementation of the remaining Basel 3 standards impacts many banks' regulatory capital requirements for undrawn corporate credit facilities by:

- applying an increased 10% standardised credit conversion factor (CCF) to unconditionally cancellable commitments (UCCs) such as overdrafts (previously 0%), aligning with the current treatment of UCCs for the purposes of the EU and UK leverage ratio and the US supplementary leverage ratio;
- applying an increased 40% standardised CCF to short-term (one year or less) facilities (previously 20%), ending the more favourable treatment of '364-day facilities';
- applying a reduced 40% standardised CCF to longer term (over one year) facilities (previously 50%);
- in the EU and the UK, applying the new standardised CCFs to undrawn facilities under the internal ratings-based (IRB) approach and restricting advanced IRB (A-IRB) banks' use of their own estimates of CCFs in place of standardised CCFs (the current and proposed US rules do not allow the use of models to estimate CCFs).

The EU, UK and US planned treatment of undrawn corporate credit facilities is broadly aligned except that:

- the EU rules are already in force while the UK rules take effect from 1 January 2027 and no date is yet set for application of the final US rules (and the final US rules may differ from the current proposals);
- the EU rules treat a commitment as arising from the time of the offer of the facility, exempt some facilities where the bank has full control over drawdowns and phase in the 10% standardised CCF for UCCs over eight years;
- the US proposals specifically treat contractual arrangements under which the bank is not obligated to extend credit as commitments that are unconditionally cancellable;
- the EU rules (but not the UK rules) determine the extent of a commitment by reference to the unadvised credit limit if higher than the advised limit, while the US proposals reference the maximum contractual amount of the commitment;
- the UK rules apply a 100% standardised CCF for commitments with certain drawdown; and
- the EU and UK rules continue to allow supervisors to permit A-IRB banks to use models to estimate CCFs but only for some undrawn revolving credit facilities to some smaller corporates and some specialised lending (and subject to a floor).

See below for more information.

CCFs for undrawn corporate credit facilities

	Rules pre-Basel 3 final		EU: CRR3		UK: PS1/26		US: Basel 3 endgame proposal	
Risk-weighting (standardised approach)	0%	UCCs.	10%	UCCs.	10%	UCCs.	10%	UCCs.
	20%	Credit facilities ≤ 1 year.	40%	Other commitments.	40%	Other commitments.	40%	Other commitments.
	50%	Credit facilities > 1 year (and, in EU & UK, NIFs and RUFs).	50%	NIFs and RUFs	50%	NIFs and RUFs.	50%	NIFs and RUFs.
			Exemption for some facilities where bank has full control over drawdowns. ¹		100%	Commitments with certain drawdown.	Commitments include contractual arrangements under which the bank is not obligated to extend credit. ²	
EU and UK: Risk-weighting (IRB approach)³	0%	UCCs.	See standardised approach. A-IRB banks may be permitted to apply own CCF estimates to some revolving facilities (subject to a floor based on 50% of the standardised approach). ⁴		See standardised approach. A-IRB banks may be permitted to apply own CCF estimates to some revolving facilities (subject to a floor based on 50% of the standardised approach). ⁴		Not applicable.	
	75%	Other credit lines, NIFs and RUFs.						
	A-IRB banks may be permitted to apply own CCF estimates.							
Leverage ratio⁵	<ul style="list-style-type: none"> EU, UK and US (supplementary leverage ratio): 10% for UCCs; otherwise see standardised approach. US (standard leverage ratio): off-balance sheet items not included. 		See standardised approach (but phase-in for UCCs does not apply).		See standardised approach.		<ul style="list-style-type: none"> Supplementary leverage ratio: see standardised approach. Standard leverage ratio: off-balance sheet items not included. 	
Large exposure & lending limits	CCFs do not apply. ⁶		CCFs do not apply. ⁶		CCFs do not apply. ⁶		CCFs do not apply.	
Application	EU: Already replaced by CRR3. UK and US: Currently in force.		From 1 January 2025 (subject to phase-in of 10% CCF for UCCs). ⁷		From 1 January 2027.		Not yet set.	

When is an undrawn credit facility a commitment?

	Rules pre-Basel 3 final	EU: CRR3	UK: PS1/26	US: Basel 3 endgame proposal
Commitment	<p><i>EU and UK:</i> An agreement to lend, purchase securities, provide guarantees or acceptance facilities.⁸</p> <p><i>US:</i> Any legally binding arrangement that obligates a bank to extend credit or to purchase assets.⁸</p>	<p>A contractual arrangement to extend credit, purchase assets or issue credit substitutes that the bank has offered to a client and has been accepted by that client (or that has been offered to the client but has not yet been accepted).^{8, 9}</p>	<p>An off-balance sheet contractual arrangement that has been offered by the bank and accepted by the obligor, including to extend credit, purchase assets or issue off-balance sheet items (but which is not itself an issued off-balance sheet item).^{8, 9}</p>	<p>A contractual arrangement under which a bank and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the bank, whether or not such arrangement is unconditionally cancellable.⁸</p>
Unconditionally cancellable commitment (UCC)	<p><i>EU and UK:</i> Undrawn credit facilities comprising agreements to lend, purchase securities, provide guarantees or acceptance facilities which may be cancelled unconditionally at any time without notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.</p> <p><i>US:</i> A commitment where a bank may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law).</p>	<p>A commitment the terms of which permit the institution to cancel that commitment to the full extent allowable under consumer protection and related legal acts, where applicable, at any time without prior notice to the obligor or that effectively provides for automatic cancellation due to a deterioration in a borrower's creditworthiness.</p>	<p>Undrawn commitments which may be cancelled unconditionally at any time without notice, or that effectively provide for automatic cancellation due to a deterioration in an obligor's creditworthiness.</p>	<p>A commitment which, by its terms, either:</p> <ul style="list-style-type: none"> • provides that a bank is not obligated to extend credit, purchase assets, or issue credit substitutes; or • permits a bank, at any time, with or without cause, to refuse to extend credit, purchase assets, or issue credit substitutes under the arrangement (to the extent permitted under applicable law).

Notes

1. *EU*: Under CRR3, arrangements are not treated as commitments where: (a) the bank receives no fees or commissions; (b) the client must apply to the bank for each drawdown; (c) the bank has full authority, over the execution of each drawdown; (d) the bank is contractually allowed to assess the client's creditworthiness immediately before deciding on each drawdown (and applies internal procedures to make that assessment); and the arrangement is offered to a corporate entity that is closely monitored on an ongoing basis.
2. *US*: Under the Basel 3 endgame proposal a contractual arrangement which does not obligate the bank to extend credit, purchase assets, or issue credit substitutes may be considered a commitment that is unconditionally cancellable. The current US rules only cover legally binding arrangements that obligate a bank to extend credit or purchase assets.
3. *US*: Standardised approach CCFs apply under the current advanced approaches and the proposed expanded risk-based approach.
4. *EU and UK*: Under CRR3 and PS1/26, banks may be permitted to apply own estimates of CCFs to revolving facilities for some smaller corporates and some 'specialised lending' (except, under the UK rules, facilities with certain drawdown). Corporates may be treated as smaller corporates if they do not have (and do not belong to a group having) consolidated annual sales exceeding €500 million (EU) or £440 million (UK).
5. *US*: US: Supplementary leverage ratio applies to banks with more than \$250 billion total assets, while a more binding "enhanced" supplementary leverage ratio applies to the eight US global systemically important banks. Banks with less than \$10 billion total assets may opt to apply the community bank leverage ratio (which does not count off-balance sheet items) instead of risk-based and other capital adequacy measures.
6. *EU and UK*: UCCs are exempt from large exposure limits if drawings are only contractually permitted if they do not result in the exposure to the borrower exceeding the large exposure limit (but the PRA rule has not yet been amended to reflect the new categorisation of UCCs under PS1/26).
7. *EU*: CRR3 phases in the new 10% CCF for UCCs as follows: from 1 January 2025 to end-2029 – 0%; 2030 – 25%; 2031 – 50%; 2032 – 75%; and 2033 onwards – 100%.
8. *EU, UK and US*: The EU rules (and current UK rules) provide that, when calculating CCFs, the extent of a commitment is determined by reference to the advised limit unless the unadvised limit is higher. The UK rules in PS1/26 provide that the extent of a commitment is determined by reference to the advised limit. The current and proposed US rules determine the extent of a commitment by reference to its maximum contractual amount.
9. *EU and UK*: A commitment includes arrangements that can be unconditionally cancelled by the bank at any time without prior notice to the obligor and arrangements that can be cancelled by the bank where the obligor fails to meet conditions set out in the relevant agreement (including conditions that must be met by the obligor before a drawdown).

Glossary

A-IRB	Advanced IRB.
Basel 3 endgame proposal	Proposed regulatory capital rules <u>published</u> by the US Federal Reserve, Office of the Controller of the Currency and Federal Deposit Insurance Corporation (March 2026).
Basel 3 final	Basel 3 standards being implemented in the EU by CRR3, in the UK by PS1/26 and in the US by the Basel 3 endgame proposal (Basel 3.1).
CCF	Credit conversion factor.
Corporate credit facility	A credit facility treated as a corporate exposure under EU, UK or US rules (e.g., excluding facilities to small and medium-sized enterprises, retail facilities and equity exposures).
CRR	EU or UK Capital Requirements Regulation or UK CRR rules (as applicable).
CRR3	<u>Regulation (EU) 2024/1623</u> amending CRR.
IRB	Internal ratings-based.
NIF	Note issuance facility.
PS1/26	<u>PRA PS1/26</u> Implementation of Basel 3.1: Final rules (January 2026).
RUF	Revolving underwriting facility.
UCC	Unconditionally cancellable commitment.

Contacts



Caroline Dawson
Partner, London
+44 20 7006 4355
caroline.dawson@cliffordchance.com



Young Kim
Counsel, New York
+1 212 878 4902
young.kim@cliffordchance.com



Chris Bates
Special Counsel, London
+44 20 7006 1041
chris.bates@cliffordchance.com



Marc Benzler
Partner, Frankfurt
+49 69 7199 3304
marc.benzler@cliffordchance.com



Jeff Berman
Partner, New York
+1 212 878 3460
jeffrey.berman@cliffordchance.com



Matt Dunn
Partner, London
+44 20 7006 4890
matt.dunn@cliffordchance.com



Toby Mann
Knowledge Director, London
+44 20 7006 8864
toby.mann@cliffordchance.com



Caroline Meinertz
Partner, London
+44 20 7006 4253
caroline.meinertz@cliffordchance.com



Charles Morris
Senior Associate, London
+44 20 7006 8288
charles.morris@cliffordchance.com



Jurgen van der Meer
Partner, Amsterdam
+31 20 711 9340
jurgen.vandermeer@cliffordchance.com

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Clifford Chance

Clifford Chance, 10 Upper Bank Street, London, E14 5JJ

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